



Winston H. Hickox  
Secretary for  
Environmental  
Protection

# State Water Resources Control Board

## Office of Statewide Initiatives Economics Unit

1001 I Street • Sacramento, California 95814 • (916) 341-5889  
Mailing Address: P.O. Box 100 Sacramento, California • 95812-0100  
FAX (916) 341-5284 • jlemmons@exec.swrcb.ca.gov



Gray Davis  
Governor

**TO:**

- (1) John Norton *John Norton* 8/21/02  
Chief, Office of Statewide Initiatives
- (2) John Robertus  
Executive Officer, San Diego Regional Water Quality Control Board

**FROM:**

John Lemmons, General Auditor III  
Economics and Effectiveness Unit  
Office of Statewide Initiatives

**DATE:**

August 29, 2002

**SUBJECT: ABILITY TO PAY ANALYSIS FOR MR. AND MRS. ERNEST MORETTI**  
**REFERENCE: UST: 40-50-3537.05:BSP**

I have reviewed the tax returns and the list of assets and liabilities submitted by Ernest and Joyce Moretti regarding their ability to pay the \$42,625 Administrative Liability (ACL) for not filing timely reports on their gasoline station cleanup. I prepared fourteen questions for additional information that the Morettis answered promptly. For further clarification, I spoke with Mr. Moretti by telephone on July 31 and found him to be very cooperative and willing to go to any lengths to be helpful. I have prepared summaries of their tax returns (1998 through 2001) and present them as attachments to this letter. These returns are consistent with other information provided by the Morettis.

### Assets

Ernest Moretti has an income tax preparation practice that he is "turning over to his daughter-in-law." Because he is turning over the practice, the number of his clients are decreasing. Joyce Moretti has been self-employed with a contract mail service. Her contract expired on June 30, 2002. She has chosen not to renew the contract.

Their assets consist of office equipment and three motor vehicles: Toyota Pickup (2000), Chevrolet Pickup (1979), and a Dodge car (1983). The Toyota Pick up was used in Joyce's self-employment business.

They live in a house that they decded to their children a number of years ago: an estate plan, so their children could avoid probate costs. The Moretti parents pay the property taxes and are maintaining the property. The arrangement with their children is equivalent to "reserving a life estate."

In a statement dated May 2, 2002 they show bank accounts of: Checking Account \$8,500 and Business Checking Account \$7,340. Both account balances are reasonable requirements for maintaining a household, operating two self-employment businesses, and conducting a gasoline cleanup operation.

### Liabilities

Their only liability is the \$42,625 ACL.

### Income and Expenses

Both Morettis collect social security payments that total \$1,360 a month.

They rent the former service station property for \$600 a month to a man that uses it to create willow furniture and other items for sale.

The Morettis stated that they have paid costs of \$319,962 on the clean up operations and have received reimbursements from the Underground Storage Tank Fund of \$285,732.

The Morettis have provided substantial detail in itemizing their business and living expenses. All of which, I believe, meets the ordinary, necessary, and reasonable tests.

Their combined incomes from line 12 of the submitted tax returns are:

Year	1998	1999	2000	2001
Ernest Moretti	\$11,367	\$13,014	\$13,879	\$10,533
Joyce Moretti	<u>\$15,918</u>	<u>\$14,830</u>	<u>\$22,428</u>	<u>\$22,786</u>
Total	\$27,285	\$27,844	\$36,307	\$33,319

Line 17 of the same tax returns lists rental real estate income and they list \$27,580 for 2001. This total includes \$53,907 from the UST reimbursement fund and covers expenses made in previous years.

Recommendation: I think the payment of this ACL would cause significant hardships for the Morettis because they are retired on fixed incomes. They have also spent \$32,230 over and above payments from the UST fund for clean-up.

cc: Karen O'Haire, OCC

Jeff Barnickol, OSI

Bryan Brock, OSI

Barry Pulver, Region 9

Attachment: Summary of Moretti's US Income Tax Returns: 1998-2001

John Norton, John Robertus

- 3 -  
August 29, 2002

**Ernest and Joyce Moretti**  
P.O. Box 2078 Borrego Springs, CA 92004-2078

Summary of U.S. Individual Income Tax Return - Form 1040

Line	Year	1998	1999	2000	2001
6a	Exemptions	Two	Two	Two	Two
<b>INCOME</b>					
7	Wages	\$ 5,500	\$ 5,500	\$ -	\$ -
8a	Taxable Interest	\$ 50	\$ 1	\$ -	\$ 48
12	Business Income or loss (Schedule C)	\$ 27,285	\$ 27,844	\$ 36,307	\$ 33,319
17	Rental real estate (Schedule E)	\$ (12,900)	\$ (25,000)	\$ 589	\$ 27,580
20	Social Security			\$ 5,103	\$ 14,493
22	Total Income	\$ 19,935	\$ 8,345	\$ 41,999	\$ 75,440
<b>DEDUCTIONS FROM INCOME</b>					
27	Less One-half of self employment tax	\$ (1,928)	\$ (1,968)	\$ (2,566)	\$ (2,354)
28	Self Employment Health Insurance			\$ (328)	\$ -
32	Total Deductions from Income	\$ (1,928)	\$ (1,968)	\$ (2,894)	\$ (2,354)
33	<b>ADJUSTED GROSS INCOME</b>	\$ 18,007	\$ 6,377	\$ 39,105	\$ 73,086
<b>DEDUCTIONS FROM ADJUSTED GROSS INCOME</b>					
36	Standard Deduction	\$ (8,800)	\$ (8,900)	\$ (9,050)	\$ (9,400)
37	Adjusted Gross Income after Deduction	\$ 9,207	\$ (2,523)	\$ 30,055	\$ 63,686
38	Deductions for Exemptions	\$ (5,400)	\$ (5,500)	\$ (5,600)	\$ (5,800)
39	Taxable Income	\$ 3,807	\$ -	\$ 24,455	\$ 57,886
<b>TAX</b>					
40	Income Tax	\$ 574	\$ -	\$ 3,671	\$ 10,266
50	Self Employment tax	0	\$ 3,934	\$ 5,130	\$ 4,708
56	Total Tax	\$ 4,508	\$ 3,934	\$ 8,801	\$ 14,974
<b>PAYMENTS</b>					
57	Tax Withheld	\$ (2,359)	\$ (1,359)	\$ -	\$ -
58	Payments on Estimate	\$ (5,363)	\$ (6,293)	\$ (7,918)	\$ (4,000)
64	Total Payments	\$ (7,722)	\$ (7,652)	\$ (7,918)	\$ (4,000)
65	Applied to Estimated Tax	\$ (3,214)	\$ (3,718)	\$ -	\$ -
70	Amount you owe	\$ -	\$ -	\$ 883	\$ 10,974

*California Environmental Protection Agency*